

Analysis and Forecasts for the Kansai Economy

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• This report provides an analysis of current economic trends in the Kansai region. It is produced by APIR's *Short-term Forecasts for Japan's and Kansai's Economies* project team headed by Yoshihisa Inada (Director of the APIR Centre for Quantitative Economic Analysis & Professor Emeritus of Konan University).

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• In this report, 'Kansai' includes 6 prefectures: Shiga, Kyoto, Osaka, Hyogo, Nara and Wakayama. The term 'Kinki' used in official data to define the same region has been changed to 'Kansai' for consistency purposes.

• Forecasts are made using APIR's original forecast model for the Kansai economy and are supervised by Prof. Yoshihisa Inada and Prof. Hiroaki Irie.

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Note: Figures in the table are calculated using the expenditure method, and differ from forecasts made using the production method.

Forecast Highlights

Kansai's economy keeps improving, but has yet to reach full recovery. Economic trends in the U.S., Europe, and China will be key for the outlook.

- ◆ In 2023 Q2, Kansai's economy showed a moderate recovery. The household sector has weakened in some areas, but is generally recovering moderately. In the corporate sector, production and business sentiment remained stable, and capital investment plans were robust. In the external sector, both exports and imports declined YoY due to the stagnant Chinese economy. Inbound tourism almost recovered to its pre-pandemic level. Looking ahead, inflation trends as well as economic trends in the U.S., Europe, and China require close monitoring.
- ◆ The household sector kept improving. Consumer sentiment and the sales of large retail stores remain stable. However, a full-fledged recovery has not yet been achieved due to a decline in real incomes caused by inflation and a growing tendency to economize. The weak state of the income environment, the employment environment and the housing market are all signs of a lull in Kansai's economic recovery.
- ◆ In the corporate sector, the manufacturing sector is improving, albeit slowly, hampered by soaring raw material prices and the slowdown of major overseas economies. The non-manufacturing sector is generally recovering, especially face-to-face services (lodging and food services), reflecting the resumption of economic activity and inbound tourism. Planned capital investment for FY 2023 is robust in both sectors, and is expected to accelerate further from FY 2022, which already saw an increase in capital investment.
- ◆ Regarding external demand, both the exports and imports of goods declined YoY. Exports to Europe and the U.S. remained robust, maintaining a year-on-year increase, but China-bound exports were sluggish, falling for the second consecutive quarter. Demand by inbound tourism was in good shape, with both the number of international arrivals at KIX and duty-free sales almost recovering to their pre-pandemic levels.
- ◆ Public-sector demand remains robust. Q2 saw a significant increase YoY.
- ◆ Real GRP growth in Kansai is projected to be +1.6% in FY 2023, and +1.4% in FY 2024. Since FY 2021, Kansai has seen positive growth in the 1-2% range. In FY 2023, Kansai's GRP will recover to its pre-pandemic level. Compared to our previous forecast (released on May 30, 2023), the forecast for FY 2023 has been revised upward by +0.3 percentage points (pp), while the forecast for FY 2024 has been revised down by -0.3 pp.
- ◆ Looking at the contributions to growth, private demand will be the driver of growth with +1.0 pp in FY 2023, and +1.2 pp in FY 2024. Public demand will support growth by +0.4 pp in both FY 2023 and FY 2024. External demand will contribute little to growth, +0.2 pp in FY 2023, and -0.1 pp in FY 2024.
- ◆ Comparing the forecasts for Kansai and Japan, in FY 2023, external demand will contribute to Kansai's economy only slightly more than it will to Japan's, reflecting the current stagnation of exports to China. In FY 2024, public demand in Kansai will get a significant boost by the upcoming World Expo, and Kansai's economy will grow faster than the rest of the country.
- ◆ In the "Topics" section of the Japanese-language version of this report, we outline the state of hotel construction in Kansai during the Covid-19 pandemic, and inbound tourism strategies.

Forecast Summary

	FY	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Private final consumption expenditure		▲ 4.2	1.5	2.4	0.8	0.9	▲ 5.1	1.5	2.5	0.5	1.2
Private residential investment		▲ 8.0	▲ 2.0	▲ 2.9	1.6	0.6	▲ 7.2	▲ 0.6	▲ 3.0	2.8	0.6
Private non-residential capital investment		▲ 7.7	2.5	1.7	2.6	3.3	▲ 5.4	2.3	3.1	2.0	2.6
Government final consumption expenditure		4.2	3.0	1.1	0.9	0.9	2.7	3.4	0.7	0.4	0.3
Public fixed capital formation		2.4	▲ 1.5	1.0	3.5	2.4	4.9	▲ 6.5	▲ 3.1	3.5	1.0
Exports		▲ 2.8	8.0	1.3	0.4	1.5	▲ 9.9	12.4	4.5	1.8	1.5
Imports		▲ 2.6	6.2	4.0	▲ 0.1	2.9	▲ 6.3	7.1	7.2	▲ 2.4	1.9
Real GRP/GDP		▲ 4.4	2.4	1.3	1.6	1.4	▲ 4.1	2.7	1.4	1.9	1.1
Private demand (contribution)		▲ 4.6	1.0	1.7	1.0	1.2	▲ 4.2	1.5	1.9	0.8	1.1
Public demand (contribution)		0.3	0.4	0.2	0.4	0.4	0.8	0.4	0.0	0.4	0.1
Net exports (contribution)		▲ 0.1	1.0	▲ 0.7	0.2	▲ 0.1	▲ 0.6	0.8	▲ 0.6	0.8	▲ 0.1
Nominal GRP/GDP		▲ 3.5	2.3	1.8	4.9	1.6	▲ 3.4	2.5	2.0	5.3	1.4
GRP/GDP deflator		1.0	▲ 0.1	0.6	3.3	0.2	0.7	▲ 0.1	0.7	3.3	0.3
Consumer price index		▲ 0.3	0.0	2.8	2.3	1.7	▲ 0.4	0.0	3.1	2.7	1.5
Industrial Production Index		▲ 8.3	5.2	▲ 2.2	0.1	1.6	▲ 9.5	5.5	▲ 0.3	0.5	1.7
Unemployment rate		3.1	3.0	2.9	2.9	2.8	2.9	2.8	2.6	2.5	2.4

Notes: Unit= %. All figures except 'Unemployment rate' are growth rates. Figures on Kansai's economy for FY 2020-22 are estimates, and figures for FY 2023-24 are forecasts. Figures on Japan's economy are official until FY 2022. Forecasts for the Japanese economy (FY 2023-24) are sourced from APIR's Economic Forecast and Analysis No. 144.

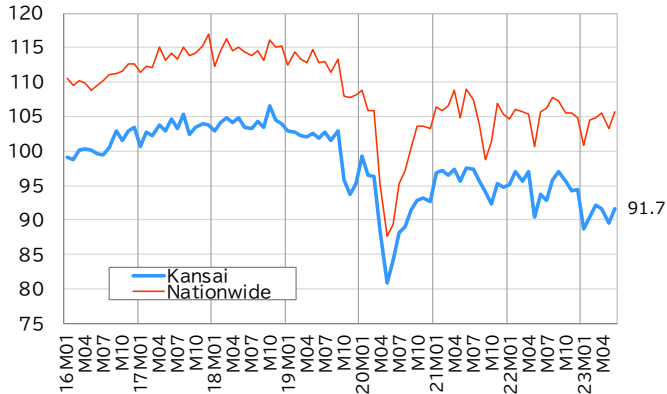
Previous Forecast

(2023/5/30)

	FY	Kansai					Japan				
		2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Private final consumption expenditure		▲ 5.4	1.9	2.3	1.4	1.5	▲ 5.1	1.5	2.4	1.6	1.5
Private residential investment		▲ 3.0	▲ 4.2	▲ 4.2	1.5	0.7	▲ 7.6	▲ 1.1	▲ 4.4	0.5	1.0
Private non-residential capital investment		▲ 6.8	1.7	3.4	3.0	3.1	▲ 5.7	2.1	3.0	2.3	2.4
Government final consumption expenditure		2.8	3.0	1.1	0.9	0.9	2.7	3.4	1.1	0.5	0.5
Public fixed capital formation		8.3	▲ 1.5	1.0	1.6	2.1	4.9	▲ 6.4	▲ 2.6	3.0	0.7
Exports		▲ 2.1	7.2	1.3	1.2	2.1	▲ 9.9	12.4	4.4	▲ 1.2	2.1
Imports		▲ 2.4	5.8	4.1	1.7	2.7	▲ 6.3	7.1	7.1	0.8	2.1
Real GRP/GDP		▲ 4.1	2.0	1.3	1.3	1.7	▲ 4.1	2.6	1.2	0.9	1.4
Private demand (contribution)		▲ 4.9	0.8	2.0	1.1	1.4	▲ 4.3	1.4	1.7	1.0	1.2
Public demand (contribution)		0.7	0.4	0.2	0.2	0.2	0.8	0.4	0.1	0.3	0.1
Net exports (contribution)		0.1	0.8	▲ 0.8	0.0	0.1	▲ 0.6	0.8	▲ 0.6	▲ 0.4	▲ 0.0

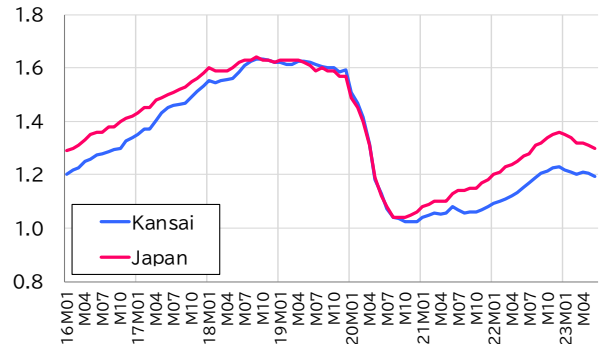
Forecasts at a Glance

【Index of Industrial Production (Kansai:2015=100, Nationwide:2020=100), including Fukui Prefecture】



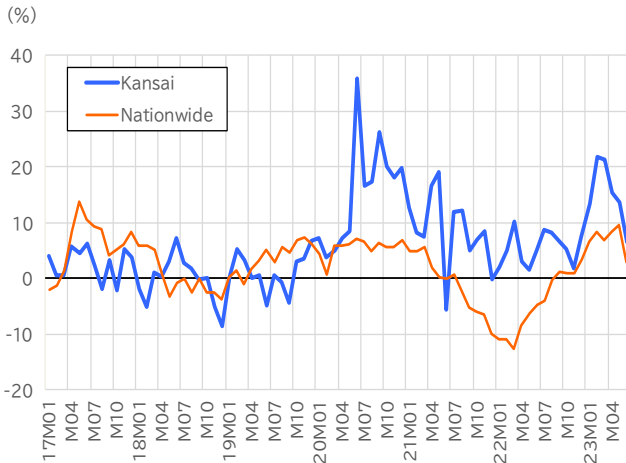
Source: Kansai Bureau of Economy, Trade and Industry

【Effective job offers-to-applicants ratio】



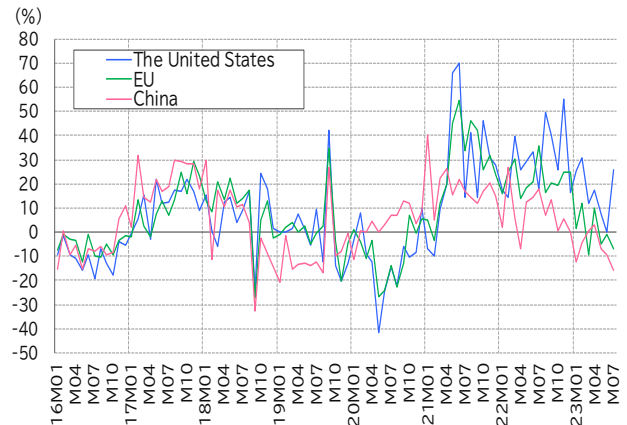
Source: Ministry of Health, Labour and Welfare of Japan

【The amount of completed public works】



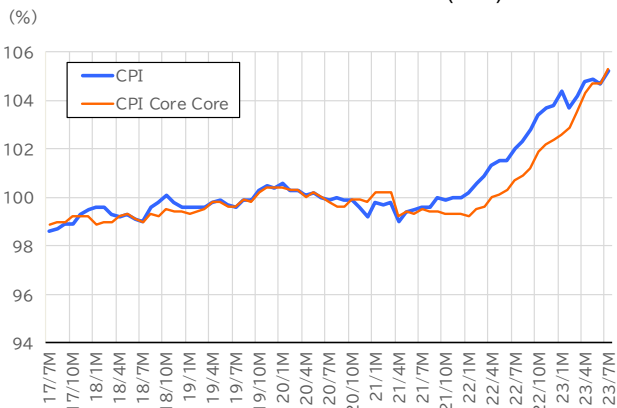
Source: MLIT

【Exports by destination (YoY changes)】



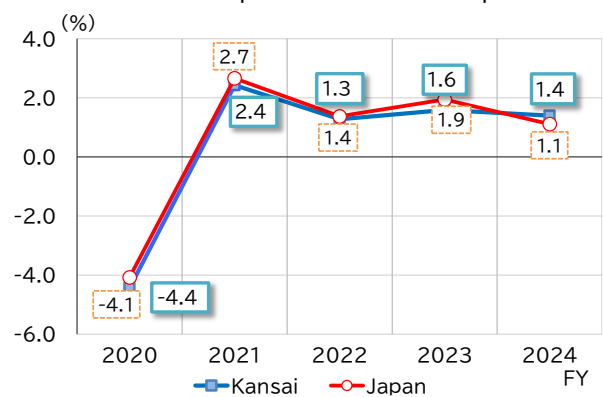
Source: Osaka Customs

【Kansai Consumer Price Index (CPI)】



Source: MIC

【Forecast comparison: Kansai vs. Japan】



Source: APIR "KEIQ No.65"